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**奧園健康生活集團有限公司**  
AOYUAN HEALTHY LIFE GROUP COMPANY LIMITED  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 3662)**

**INSIDE INFORMATION**

**KEY FINDINGS OF THE SECOND SUPPLEMENTAL INVESTIGATION  
AND  
THE FOLLOW-UP INTERNAL CONTROL ASSESSMENT**

This announcement is made by Aoyuan Healthy Life Group Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the announcements of the Company dated 30 March 2022, 3 May 2022, 2 June 2022, 30 June 2022, 31 August 2022, 30 September 2022, 3 October 2022, 30 December 2022, 13 January 2023, 31 March 2023 and 30 June 2023, in relation to, among others, (a) certain fund flows matters and allegations against the Group; (b) the key findings of the independent investigations into certain fund flows matters and allegations against the Group; (c) the key findings of the internal control assessment; and (d) the key findings of the supplemental investigation into a fund flows matter (collectively, the “**Announcements**”). Unless otherwise stated, terms used in this announcement shall have the same respective meanings as those defined in the Announcements.

## **BACKGROUND**

As disclosed in announcements of the Company dated 3 October 2022 and 31 March 2023, the Investigation Firm completed the First Investigations and the Supplemental Investigation and issued the Investigation Reports and the Supplemental Investigation Report respectively. The Independent Investigation Committee further engaged the Investigation Firm to conduct an independent supplemental investigation (the “**Second Supplemental Investigation**”) on certain personnel of the Company.

On 25 July 2023, the Investigation Firm finalised and issued an investigation report (the “**Second Supplemental Investigation Report**”) in relation to the Second Supplemental Investigation.

Further, as set out in the quarterly update announcement of the Company dated 30 June 2023, the IC Advisor has completed the follow-up sample checking and assessment of the latest implementation status of remedial measures in relation to the internal control findings as identified in the Internal Control Assessment for the period from 30 December 2022 to 21 April 2023 (the “**Phase 3 IC Assessment**”). On 21 April 2023, the IC Advisor issued the internal control assessment report in relation to the Phase 3 IC Assessment (the “**Phase 3 IC Report**”).

The purpose of this announcement is to provide the Shareholders and potential investors of the Company with key findings of the Second Supplemental Investigation Report and the Phase 3 IC Report and the views of the Independent Investigation Committee and the Board on the said reports.

## **SECOND SUPPLEMENTAL INVESTIGATION**

### **Major procedures executed by the Investigation Firm**

The major investigation procedures executed by the Investigation Firm during the Second Supplemental Investigation were set out below:

- (a) conducting interviews with certain relevant personnel of the Company and the Parent Group in order to understand the level of involvement in the decision making of the relevant personnel in each of the Fund Flows Matters at the material time; and
- (b) collecting and analysing the electronic data of the server emails or computer devices of certain relevant personnel of the Company and conducting review of responsive hits.

## Key findings of the Second Supplemental Investigation

### (i) *Fund Flows Matter 1*

The Investigation Firm noted that Mr. Guo Zining (“**Mr. Guo**”), the former non-executive Director and chairman of the Board, involved in the arrangement of, provision of verbal instructions and verbal approval of the Fund Flows Matter 1. The Fund Flows Matter 1 was executed by the former treasury manager of the Company (the “**Former Treasury Manager**”), including opening the relevant bank account and arranging for the fund transfers contemplated under the Fund Flows Matter 1. The Investigation Firm also noted that the treasury responsible officer (the “**Treasury Responsible Officer**”), the former treasury assistant and the former cashier clerk of the Company were involved in the execution of the Fund Flows Matter 1, including but not limited to, initiating the approval process by the paper approval form, initiating application for affixing company stamps and making internal accounting entries of the fund transfers. The former finance-in-charge of the Company (the “**Former Finance-in-charge**”), the former general manager of the Company’s Treasury Centre (the “**Former Treasury General Manager**”), Former Treasury Manager and Mr. Zheng Wei (“**Mr. Zheng**”), the former executive Director and president of the Group, approved the Fund Flows Matter 1 through the paper approval form. To sum up, Mr. Guo took the lead in the overall arrangement of the Fund Flows Matter 1 and was primarily responsible for the Fund Flows Matter 1.

### (ii) *Fund Flows Matter 2*

It was noted by the Investigation Firm that Mr. Guo involved in the arrangement of, provision of verbal instructions and liaison with the counterparty to the relevant transaction and verbally approved the Fund Flows Matter 2. The assistant to the Company’s legal general manager (the “**Legal General Manager’s Assistant**”) conducted a due diligence exercise on the counterparty under the instruction of Former Finance-in-charge, who assisted in facilitating the Fund Flows Matter 2, including, among others, liaising with the Parent Group, reporting the due diligence results on the relevant counterparty to the Parent Group and arranging for the fund transfers contemplated under the Fund Flows Matter 2. Also, a cashier clerk of the Company omitted to make internal accounting entries in relation to the Fund Flows Matter 2 as the relevant fund inflows and outflows occurred on the same day.

The Former Finance-in-charge, Former Treasury General Manager, Former Treasury Manager and Mr. Zheng approved the Fund Flows Matter 2 through paper approval form. According to the Company's internal policies in relation to payments, the supporting documents for payments should include, among others, a written agreement, an authorisation letter, a payment application form and other supporting documents. However, the above personnel did not follow the relevant internal policies of the Company when approving the Fund Flows Matter 2 as they did not conduct a prudent and appropriate review of the supporting documents, request for a written agreement or conduct a proper background search against the counterparty. To conclude, Mr. Guo was in charge of the overall arrangement of the Fund Flows Matter 2 and was primarily responsible for the Fund Flows Matter 2.

*(iii) Fund Flows Matter 3*

The Investigation Firm noted that Mr. Guo gave verbal instructions to Former Treasury Manager to arrange for the deposit pledges and arranged for the preparation and execution of the tri-partite agreement entered into between the Group, the Parent Group and a business partner of the Parent Group (the "**Tri-partite Agreement**") and the related matters. Mr. Guo and Mr. Chen Zhibin ("**Mr. Chen**"), the former non-executive Director and the former chief financial officer of the Parent Group, gave verbal instructions to Former Treasury Manager to affix the company stamp on the deposit pledge agreements and such arrangement circumvented the Company's internal policies in relation to the stamping and approval process of contracts. Each of Mr. Zheng and Mr. Miao Sihua ("**Mr. Miao**"), the former executive Director, either affixed his legal representative's stamp or signed on the relevant deposit pledge agreements with Bank A and Bank B. The Investigation Firm also noted that Treasury Responsible Officer was responsible for keeping the legal representative's stamps but such stamps were borrowed by Former Treasury Manager in June 2021 and were later returned. Further, the Investigation Firm did not identify any record and electronic data about the drafting, approval, stamping and correspondence in relation to the deposit pledge agreements in the Company's electronic approval system.

The Investigation firm further noted that the Treasury Responsible Officer and a cashier clerk of the Company were responsible for liaising with Bank A and Bank B. The Former Finance-in-charge, Former Treasury General Manager and Former Treasury Manager, Legal General Manager's Assistant, Mr. Zheng and the assistant to the president of the Group were involved in the approval process of the Tri-partite Agreement. The Former Finance-in-charge, Former Treasury General Manager, Former Treasury Manager and Mr. Zheng approved the Fund Flows Matter 3 by the paper approval form. In short, Mr. Guo took a supervisory role in the overall arrangement of the Fund Flows Matter 3 and was primarily responsible for the Fund Flows Matter 3.

(iv) **Fund Flows Matter 4**

The Investigation Firm noted that the following personnel of the Company approved the non-trade fund transfers under the Fund Flows Matter 4:

	<b>Number of fund transfers under the Fund Flows Matter 4 participated by the personnel</b>	
	From 1 January 2021 to 31 December 2021 (Total: 142)	From 1 January 2022 to 30 April 2022 (Total: 5)
Mr. Guo	142	5
Mr. Chen <sup>Note 1</sup>	118	/
Former Treasury Manager	140	2
Former Treasury General Manager	121	2
Former Finance-in-charge	121	1
Mr. Zheng	121	1
A finance director and a treasury manager of a subsidiary of the Company <sup>Note 2</sup>	2	3

*Notes:*

1. Mr. Chen approved the relevant fund transfers in his capacity as the then chief financial officer of the Parent Group.
2. These 5 transactions were initiated by Former Treasury Manager and verbally approved by Mr. Guo. As these transactions were associated with a subsidiary of the Company, the approval process therefore involved the finance director and the treasury manager of the relevant subsidiary according to the Company's relevant internal policies.

As Mr. Guo participated in all the relevant fund transfers under the Fund Flows Matter 4, he bore the primary responsibility for the Fund Flows Matter 4.

## **Internal control deficiencies**

In addition to the above key findings, the Investigation Firm has also set out the following internal control deficiencies in the Second Supplemental Investigation Report:

### ***(i) Usage of Company's stamps***

Pursuant to the Company's internal policies, the company stamps and the legal representatives' stamps cannot be kept by the same individual and the stamp custodians should not be the approver who will make a final decision as to the usage of the stamps. The Investigation Firm noted that the relevant company stamps, legal representatives' stamps and finance-related stamps were separately kept by the responsible officer of the Company's Administrative Department, Treasury Responsible Officer and a cashier clerk respectively. However, the Investigation Firm further noted that Mr. Guo and Mr. Chen verbally instructed Former Treasury Manager to directly affix the company stamps kept by the Company's Administrative Department on the relevant deposit pledge agreements in relation to the Fund Flows Matter 3. This circumvented the internal control policies by not going through the written application, approval and registration processes.

In addition to having established a written policy governing the use of the relevant stamps and maintenance of stamp registers, the Company will continue to improve and strengthen the existing internal control measures and policies by, including but not limited to:

- (a) enhancing the trainings on the rules and regulations in relation the usage of stamps to strengthen the compliance awareness and providing specific trainings to the stamp custodians to enhance their sense of responsibility and risk awareness;
- (b) monitoring and checking the actual usage status against the stamp registers monthly by the Company's Administrative Department and Internal Audit Department; and
- (c) conducting a quarterly sample checking of the usage of the stamps by the compliance officer-in-charge for any unauthorised usage of stamps and reporting to the Board about the results of the sample checking and continuing to follow up in case any deficiency is found.

**(ii) *Approval by paper approval form***

The Investigation Firm noted that each of the Fund Flows Matters 1, 2 and 3 was approved by paper approval forms. Further to adopting the written policy which governs the use of paper approval forms, the Company will further restrict the funding applications through paper approval forms by, including but not limited to:

- (a) allowing the use of paper approval forms only in the case of a malfunction in the Company's electronic approval system; and
- (b) requiring the approval from the Company's Internal Audit Department for the use of paper approval forms and identifying any manual approvals which do not meet the relevant approval matrix.

**(iii) *Provision of guarantees***

It was noted by the Investigation Firm that the deposit pledges under the Fund Flows Matter 3 were not properly approved and recorded.

Besides having established a written policy to regulate the management of financing transactions, loans and guarantees, the Company will further strengthen the risk management by providing relevant trainings regularly to raise the risk and compliance awareness of the Directors and the Company's management and requiring the approval from the independent non-executive Directors in the event that the amount of the guarantee exceeds a prescribed threshold.

**(iv) *Due diligence***

The Investigation Firm noted that no due diligence results on the counterparty of the Fund Flows Matter 2 were recorded. As recommended by the IC Advisor, the Company has circulated written guidance requiring the relevant staff to check against the supporting documents before fund transfers. Apart from the above remedial action, the Company will further manage the due diligence process of the Group's potential investments by, including but not limited to:

- (a) applying the existing legal due diligence policies when a potential acquisition involves payments by the Group to external parties, regardless of the entering into of any confidentiality agreement, letter of intent or framework agreement;
- (b) terminating the fund transfer process without sufficient supporting documents; and
- (c) conducting a quarterly sample checking of payments by the compliance officer-in-charge, in particular, the non-trade fund transfers exceeding a certain amount, and reporting to the Board about the results of the sample checking and continuing to follow up in case any deficiency is found.

## **View of the Independent Investigation Committee in relation to the Second Supplemental Investigation**

The Independent Investigation Committee has reviewed the key findings of the Second Supplemental Investigation Report and considers that the Investigation Firm has sufficiently identified the personnel of the Group who were involved in the decision making of the Fund Flows Matters. The Independent Investigation Committee has also considered the procedures executed by the Investigation Firm and is of the view that the Investigation Firm has exploited all reasonably practicable means to conduct the Second Supplemental Investigation.

On the basis of the above, the Independent Investigation Committee is of the view that the findings in the Second Supplemental Investigation Report, which are reasonable and acceptable, have further addressed the Fund Flows Matters. Accordingly, the Independent Investigation Committee recommended the Board to adopt the findings in the Second Supplemental Investigation Report.

The Independent Investigation Committee noted that certain former Directors identified by the Investigation Firm as having been involved in the decision making of the Fund Flows Matters were not able to demonstrate the reasonable standard of a director as required under the Listing Rules at the material time and the internal controls of the Group at the material time were not sufficient. Although Mr. Guo resigned and ceased to act as a non-executive Director and the chairman of the Board with effect from 16 February 2023, Mr. Zheng resigned and ceased to act as an executive Director and the president of the Group with effect from 1 September 2022, Mr. Chen resigned and ceased to act as a non-executive Director with effect from 29 January 2021 and the chief financial officer of the Parent Group with effect from 27 April 2023 and Mr. Miao resigned and ceased to act as an executive Director with effect from 7 January 2021, the Independent Investigation Committee recommends the Company to appoint a compliance advisor and an internal control advisor as soon as practicable for consultation of compliance with the Listing Rules, ensuring the timely and proper implementation of the Group's internal control measures and policies and strengthening the internal control of the Group.



## **View of the Board in relation to the Second Supplemental Investigation**

The Board considered the procedures executed by the Investigation Firm and reviewed the key findings of the Second Supplemental Investigation Report and concurred with the Independent Investigation Committee that the findings in the Second Supplemental Investigation Report are reasonable and acceptable and the Second Supplemental Investigation Report has further addressed the Fund Flows Matters.

The Board has resolved to adopt the findings of the Second Supplemental Investigation and is of the view that the issues identified in the Second Supplemental Investigation Report do not affect the business operations of the Group. The Group's business operations continue as usual in all material respects despite the suspension of trading of shares of the Company since 1 April 2022.

As at the date of this announcement, the then Directors identified by the Investigation Firm as having been involved in the decision making of the Fund Flows Matters ceased to hold any positions within the Group. In order to guarantee the management and operation independence of the Group, the Company has removed the management of the Parent Group from the relevant approval matrix. In addition, as at the date of this announcement, all staff with overall management or supervisory role of the Group who were identified by the Investigation Firm as having been involved in the decision making of the Fund Flows Matters have resigned. Based on the investigations conducted by the Investigation Firm, none of the existing Directors and senior management team of the Group was involved in the Fund Flows Matters.

## PHASE 3 IC ASSESSMENT

The implementation status of the remedial actions taken by the management in the Phase 3 IC Report are set out below:

### Summary of key findings of the Internal Control Assessment

### Remedial actions taken by the management in the Phase 3 IC Report

- Certain requirements in relation to the declaration of conflict of interest by the Directors, senior management and staff of the Company were not documented in the written policies of the Company, and the contents of such declarations were not standardised.

The Supervision Department of the Company is responsible for monitoring and reviewing whether there are any conflicts of interest among the Directors, management and employees of the Company and conducting investigations if necessary.

The Company also published an internal notice about the disciplinary decisions imposed and the relevant investigation conducted in relation to employees' breach of the written policy in March 2023.
- The Company did not establish formal written policies and procedures for risk identification, assessment and management. There was also no risk register to record the financial, operational and compliance risks encountered by the Company.

Suggestions for risk management measures regarding those risks identified in the Risk Register have been provided and implemented.
- The management of the Parent Group had approval authority in respect of certain operations of the Company and its certain subsidiaries.

The Company has removed the approval authorities of Parent Group's management from the relevant approval matrix.
- A transaction involving transfer of shares of a subsidiary of the Company was not properly initiated in the Group's internal approval system and the approval procedure adopted was incorrect.

A notice setting out the specific approval procedures for transactions involving shares transfer in different scenarios has been issued and circulated to all employees internally.

## Summary of key findings of the Internal Control Assessment

## Remedial actions taken by the management in the Phase 3 IC Report

5. The Company's written policies for managing notifiable and connected transactions were not sufficiently comprehensive and/or not fully implemented. There were no regular communications or checkings to ensure that all potential notifiable and connected transactions were identified.
- The Company has updated relevant policies in relation to notifiable and connected transactions.
- The responsible persons of every department are required to declare and notify the company secretary of the Company (the "**Company Secretary**") on a daily basis on whether the department has incurred or is prepared to incur any notifiable transactions and/or connected transactions.
- The Company has also updated its Continuing Connected Transaction Report and Connected Person Register on a quarterly basis and submitted the same to the Board for approval.
6. The Company did not maintain a register of connected persons as defined under the Listing Rules.
- The Company and the relevant subsidiaries did not maintain a full list of its related parties, and there was no comprehensive written policy for managing related party transactions either.
- The Company has maintained a Connected Person Register.
- The Company has also established a Related Party Register and the relevant policy in relation to related party transactions.
7. The Company did not organise trainings in relation to compliance with certain Listing Rules and no related training materials were circulated to the Directors.
- The Company Secretary has sent reading materials on the updates and related contents in relation to the Listing Rules to the Board by email. Board members are required to confirm if they have received and read such materials. An external legal counsel of the Company has provided trainings of compliance with certain Listing Rules to the Board, management and relevant staff of the Company on 15 December 2022.

## Summary of key findings of the Internal Control Assessment

## Remedial actions taken by the management in the Phase 3 IC Report

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| 8. The Company had no mechanisms to review and approve the judgment formed by the Company Secretary on whether a connected transaction qualifies for exemptions under the Listing Rules.   | The Company adopted the IC Advisor's recommendation to establish a mechanism to review and approve the judgment of the Company Secretary, including requiring the Company Secretary to report his/her view to the Board for consideration and approval.   |
| 9. Part of the policies and procedures of the Company in respect of the handling and disclosure of inside information were not fully implemented.  | <p>The Company has engaged an external public relations firm to keep track of the current stock price and stock trading volume of the peers of the Company and send to the Company on a daily basis.</p> <p>The Internal Audit Department and the brand management supervisor have also conducted research regarding the news of the Company, and information such as news headlines, links and publication date is kept in a register.</p> |
| 10. There was insufficient supervision over, and approval record of, fund transfers to the Parent Group processed by the relevant subsidiaries of the Company, and no sufficient supporting documents for relevant fund transfers.                               | A notice prohibiting unapproved fund transfers and fund transfers without sufficient supporting documents has been issued and circulated to all employees internally.   |
| 11. The Company and the relevant subsidiaries did not establish a comprehensive written policy to regulate the management of financing transactions, loans and guarantees. No register was maintained to completely record all guarantees provided by the Group. | <p>The Company has held an internal control update training on 15 December 2022, and a total of 30 attendees participated in the training, including the Directors, management, and employees from the Finance and Legal Departments.</p> <p>In March 2023, an interest payment application has been initiated, reviewed, and approved in the system before making the payment.</p>   |

## **Summary of key findings of the Internal Control Assessment**

## **Remedial actions taken by the management in the Phase 3 IC Report**

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| 12. Certain procedures in relation to the closing of books and the preparation of consolidated financial statements of the Company and the relevant subsidiaries were not documented in the written policy of the Company.  | The accountant of the Finance Department has prepared an account closing checklist monthly and submitted the same to the accounting manager for review.<br><br>The financial reporting team of the Finance Department has prepared the financial disclosure checklist and submitted the same to the general manager of the Finance and Risk Management Department for review.         |
| 13. Paper approval forms were used by certain subsidiaries of the Company for approving fund transfers. The relevant approval forms were not properly filed or recorded in the electronic approval system of the Company and as a result the Company did not have a complete and centralised approval record of fund transfers. | No sample testing could be conducted in this respect as there was no matter or transaction approved by paper approval forms during the review period of the Phase 3 IC Assessment. Also, the IC Advisor observed that there was no entries designated as “approval process by paper approval forms” in the Company’s electronic approval system from 1 January 2023 to 31 March 2023. |
| 14. Certain transactions of fund transfers of the relevant subsidiaries of the Company were not recorded in the accounts of the Group.  | The Company revised its written policy on monthly closing of accounts.<br><br>The Company has also incorporated the internal control requirements into its monthly notification as part of the financial closing process and Monthly Closing Checklist.   |
| 15. The Company’s written policy governing the use of equipment was not strictly complied with by certain relevant subsidiaries of the Company, and the record of custody of the relevant equipment was out of date.  | The Company conducted a fixed assets count and checked the accuracy of the Fixed Asset Register as of 31 December 2022.   |

## **Summary of key findings of the Internal Control Assessment**

## **Remedial actions taken by the management in the Phase 3 IC Report**

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| 16. There was no written policy specifically in relation to the use of finance-related stamps at the Group level. The approval matrix and procedures in relation to the use of these stamps were inadequate, and some of the subsidiaries of the Company had not properly recorded the use of the relevant stamps. | The Company has adopted the written policy with an effective date of 7 December 2022. The Company has maintained registers for using various stamps (including finance stamp, legal representative stamp, and invoice stamp, etc.) for the headquarter and subsidiaries.     |
| 17. The expenses reimbursement approval procedures adopted by certain relevant subsidiaries of the Company allowed the reimbursement of expenses without submitting the relevant invoice. The authenticity of the expenses incurred could not therefore be verified.   | <p>The Company has updated the relevant written policy to expressly disallow expenses reimbursement applications which are not supported by invoices.</p> <p>The Company confirmed that, as at 21 April 2023, there was no expense reimbursement without valid invoices.</p> |

## **Views of the Independent Investigation Committee and the Board in relation to the Phase 3 IC Assessment**

Having considered the results of the Phase 3 IC Assessment, the Company has adopted the remedial measures recommended by the IC Advisor in full as set out in the table above. The Independent Investigation Committee and the Board are of the view that the remedial actions taken by the management are adequate and effective to address the key findings of the Internal Control Assessment. As such, the Board is of the view that the Company has in place adequate internal control systems to meet the obligations under the Listing Rules. The Company will further consolidate and advance the Directors' knowledge and understanding about directors' duties, compliance with the Listing Rules and effective internal control as amended and updated from time to time, for instance, the Company having organised training sessions in relation to, among others, internal control, certain topics on the Listing Rules and various corporate governance codes for the Directors and/or management of the Company on 20 June 2023. Also, the Company will continue to enforce its internal control policies and procedures on an ongoing basis and update such policies and procedures as and when appropriate to ensure compliance with the Listing Rules.

## **CONTINUED SUSPENSION OF TRADING**

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on Friday, 1 April 2022 and will continue to be suspended until further notice.

By order of the Board  
**Aoyuan Healthy Life Group Company Limited**  
**Cheng Siu Fai**  
*Executive Director*

Hong Kong, 26 July 2023

*As at the date of this announcement, the executive Director is Mr. Cheng Siu Fai; the non-executive Directors are Mr. Ruan Yongxi and Mr. Zhu Yunfan; and the independent non-executive Directors are Mr. Hung Ka Hai Clement, Dr. Li Zijun and Mr. Wang Shao.*